

**CALIFORNIA BENEFITS DENTAL PLAN**  
(A Wholly Owned Subsidiary of Dental Holdings, Inc.)

Notes to Financial Statements

January 31, 2002

**(1) Organization and Operations**

***The Company***

California Benefits Dental Plan (the Company) was incorporated on August 9, 1991 and received its license as a specialized dental health care service plan on July 30, 1992. The Company is regulated by the California Department of Managed Health Care (the DMHC) under the Knox-Keene Act to operate as a prepaid dental plan in the Southern California region.

The Company is a wholly owned subsidiary of Dental Holdings, Inc. (DHI), a subsidiary of GE Financial Assurance Holdings, Inc. (GEFAHI), a subsidiary of General Electric Corporation.

As more fully described in note 6, DHI and GEFA furnish services of certain officers and employees, supplies, use of equipment and payment of taxes. Only certain costs are remitted back to the Company for payment. The accompanying financial statements do not reflect the results of operations or financial condition of the Company if it had operated as an unaffiliated entity.

**(2) Summary of Significant Accounting Policies and Principles**

***(a) Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***(b) Regulatory Requirements and Restricted Certificate of Deposit***

Under California Knox-Keene Health Care Service Plan Act, the Company must comply with certain minimum capital or tangible net equity (TNE) requirements. As of January 31, 2002, the minimum TNE requirement is \$59,979. As part of this requirement, \$50,000 is maintained in a certificate of deposit as restricted cash. At January 31, 2002, the Company exceeded its minimum TNE requirement by \$169,787. The excess TNE decreased nearly \$282,505 due to a change in the Retained Earnings and Paid in Surplus associated with the acquisition of the Plan.

***(c) Revenue and Cost Recognition***

Prepaid annual premiums from plan memberships sold are initially recorded as unearned premium and thereafter recognized under the straight-line method over the period in which members are eligible for dental benefits coverage. Monthly premiums are recognized in the period of coverage.

***(d) Cash and Cash Equivalents***

The Company considers highly liquid investments with original maturity dates of three months or less to be cash equivalents.

***(e) Premiums Receivable***

The Company utilizes the allowance method of accounting for losses from uncollectable accounts. Under this method, an allowance is provided based on historical experience and management's evaluation of outstanding receivable at the end of the year.

***(f) Fair Value of Financial Instruments***

The Company estimates that the fair values of its financial instruments at January 31, 2002 do not differ materially from their carrying value in the accompanying balance sheet.

***(g) Property and Equipment, and Related Depreciation***

Property and equipment are stated at cost. Improvements are capitalized in Leasehold Improvements while replacements, maintenance and repairs, which do not improve or extend the life of the respective assets, are expensed as incurred. At the time properties are sold or otherwise disposed of, the property and related accumulated depreciation accounts are relieved of the applicable amounts and any gain or loss is recorded.

Depreciation is computed using the straight-line method for financial statement purposes over the estimated useful lives of three to seven years.

**(h) Income Taxes**

For California Franchise tax purposes, a tax is imposed at the greater of \$800 or 8.84% of taxable income for the year.

The Company is included in the federal income tax return of General Electric Company and is subject to a tax-sharing agreement.

**(3) Certificates of Deposit**

The Company has certificates of deposit as follows:

		<u>2002</u>	
		<u>Amount</u>	<u>Date of Maturity</u>
		<u>68,393</u>	September 5, 2002
Noncurrent assets - restricted	\$	50,000	September 7, 2002

The \$50,000 restricted certificate of deposit is maintained as part of the tangible net equity requirement described in note 1.

**(4) Premium Receivable**

Premiums receivable at January 30, 2002 consists of the following:

		<u>2002</u>
Premiums Receivable	\$	97,391
Less: allowance for doubtful accounts		<u>(3,314)</u>
Premiums receivable, net	\$	<u>94,077</u>

**(5) Property and Equipment**

Property and equipment at January 31, 2002 consist of the following:

		<u>2002</u>
Furniture and fixtures	\$	(45,108)
Computer and office equipment		88,969
Leasehold Improvements		<u>69,268</u>
		\$ 113,129
Less: accumulated depreciation		<u>(35,036)</u>
Property and equipment, net	\$	<u>78,093</u>

**(6) Transactions with Affiliates**

DHI and GEFA furnish services of certain officers and employees, provide supplies, use of furniture and equipment and make payment for taxes. The Company is obligated to reimburse GEFA for cost of federal and state income taxes and cost of supplies while other services are provided at no charge.

An affiliate entity sells group policies on behalf of the Company. In return, the Company pays the affiliate marketing fees of 3% - 5% of premiums. Amounts incurred and owed to the affiliate for marketing fees are included in accounts payable.

**(7) Income Taxes**

The Company's income taxes are calculated and recorded quarterly.

**(8) Operating Leases**

Future minimum annual payments under noncancellable operating lease agreements at January 31, 2002 are as follows:

2002	62,326	GEFA Richmond expensed January and
2003	76,433	February 2002 Rent Expense in January
2004	6,386	2002
2005	<u>0</u>	
	\$157,123	

**(9) Retirement Programs**

The Company participates in the Savings Program and Pension offered by GE Financial Assurance which allows participation in a 401(k) and Pension Program. The employees may contribute up to 15% of gross salary with company matching up to 7% (3.5%) of gross salary. The participation in the pension program is automatic at 2% of the employees gross earnings paid by the Company.

**(10) Claims Incurred But Not Reported**

The Company uses a rolling year Claim "Lag" Study to set reserves for claims that are incurred and not reported. An increase of \$5,418 was entered in January 2002.

**(11) Compensation**

Compensation for January 2002 was accrued for because the Company changed payroll to Ft. Myers payroll and there were issues that caused January's entries to not be entered.

**(12) Aggregate Write-Ins**

Many of the Aggregate Write-Ins were based on accruals and/or the reversal of December 2001 accruals. The December 2001 accruals were over-estimated and the resulting January accruals were greatly reduced.